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NEA/EX FOR WILLIAM J. HAUGH AND THOMAS QUINZIO  
NEA/ARP FOR ASHLEY BAGWELL AND SANJAY RAMESH

E.O. 12958: N/A

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SUBJECT: INFLATION, HOUSING COSTS TAKING TOLL ON QATARI  
LABOR MARKET, EMBASSY STAFF

¶1. SUMMARY: Double-digit inflation in Qatar has become the norm, with increases in the housing sector felt most acutely. The high cost of living dominates public and private discourse. The government has begun to take steps to address inflation, though they have been ineffective thus far, and the private sector is taking matters into its own hands by dramatically increasing compensation packages and building private housing complexes for its employees. One negative outcome of the nationwide rise in costs is that Post's LES are demoralized and severely stretched financially by the increase in housing and other costs. As elsewhere in Qatar, absent a significant increase in funds to help LES salaries keep pace with inflation, the economic hardships of working in Qatar will soon be reflected in staff attrition. END SUMMARY.

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Double-Digit Inflation the New Norm  
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¶2. The IMF reported Qatar's inflation at 11.8 percent in 2006, with a projected rate of 12 percent in 2007. According to Qatar's Planning Council, inflation reached 12.8 percent in the second quarter of 2007 after reaching 14.8 percent in the first quarter. These levels of inflation have outpaced Qatar's impressive real GDP growth, which was 6.3 percent in 2005 and 8.8 percent in 2006. During the second quarter of 2007, the overall Consumer Price Index reached 147.86 compared to 2001 prices, while the CPI for rents reached to an astronomical 279.38 compared to 2001 levels. Qatar's inflation is the highest among GCC countries, with the next highest level 9.3 percent in the UAE.

¶3. The oil and gas sector accounts for over 60 percent of Qatar's economy, and the sustained increase in these commodities' prices, coupled with sharp rises in the volume of Qatar's energy exports, has caused a dramatic increase in inflows and public expenditures. Moreover, the decline of the U.S. dollar-pegged Qatari riyal has increased the cost of imports, including many basic consumables. The rapid expansion of the Qatari economy has lured hundreds of thousands of new workers to Qatar in the past few years, further stressing demand for housing, services, and products. Qatar's population was only 522,000 in 1997 but has grown to over 900,000 this year, with a native population of just over 200,000.

¶4. Residents, and particularly expatriates, have felt the increase in costs most acutely in the housing sector. Reliable statistics are hard to find, but the Qatari Planning Council reported that rents increased by 116 percent from 2001-2007. Minister of Finance Yousef Hussain

Kamal recently stated, however, that rents had increased by 168 percent in the last two years alone. (Note: Anecdotal, Embuffs regularly hear stories of 100 percent annual rental increases.) According to a report released in October by the Kuwait Financial Center, Doha has experienced the highest growth in rental prices among major GCC cities over the past two years. The sharp increase in demand coupled with a steep increase in the cost of building materials -- 70 percent since 2003 by some estimates -- is reportedly to blame for inflation in the housing sector.

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Cost-of-Living Dominates Mocktail Circuit Talk  
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¶5. The high cost-of-living has dominated local press in recent weeks and is the main topic of conversation among locals, long-time residents, and expatriates in Qatar. Many expatriates are reportedly rethinking living in Qatar due to inflation. The steep cost of housing and the weakness of the dollar-pegged riyal (making repatriation of salaries to other currencies less advantageous) are the main reasons given in the press and anecdotally to Embuffs.

¶6. Even Qatari citizens, generally regarded as very well-off with one of the highest per capita incomes in the world, are not exempt from feeling inflationary pressures. The National Human Rights Committee has noted an increase in requests from Qatari citizens to help them find housing. The Committee's legal advisor said that many of the requests are from Qatari women who are divorced from non-Qatari men. One of the local Arabic dailies recently published a letter from a Qatari citizen attacking remarks

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on inflation by the Finance Minister. The unusually frank public rebuke included the accusation that: "In developed countries ministers resign their seats when they fail to do their jobs, while our minister procrastinates and denies the reality and defends greedy merchants."

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Government Response Minimal, Ineffective  
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¶7. In November 2006, the Amir issued a decree giving civil servants a 40 percent salary increase. Government human resources officers have signaled that another across-the-board salary increase is likely soon, indicating the GOQ recognizes the effects of price increases in Qatar. The GOQ has floated several ideas to combat inflation and taken some action to try and ease supply pressures, though these measures have been ineffective thus far. For example:

-- The government is planning to build a new port south of Doha which will have a capacity several times larger than the current port of Doha, which is running at capacity. The construction contracts have not even been tendered yet, however, and construction will take a minimum of five years.

-- Under Qatari law, landlords are not allowed to raise rents more than 10 percent a year, but the law and practice is fraught with loopholes, and examples abound of Doha residents (including the Embassy's LES) facing annual rent increases substantially higher than 10 percent.

-- The GOQ removed the customs duties on imports of cement and steel. As an incentive to importers, the government is also reportedly importing cement in its name and paying the fines in case a ship carrying cement is stuck at the port.

-- In early October, the Finance Minister announced a two-year moratorium on housing demolitions (in order to keep the housing supply as high as possible). This

moratorium is not being implemented evenly, however, and it is unclear if this will alleviate the supply shortage. Examples abound of housing units being readied for demolition to make way for other housing or commercial developments.

-- The General Secretariat for Development Planning website will soon post prices of essentials and the government has reportedly begun to subsidize some basic food items.

-- In early October, the GOQ formed a Central Rents Committee to be housed under the Ministry of Finance. The Committee will fix lease and rent prices for properties used by government agencies.

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Private Sector Adjusting to New Cost of Business  
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¶8. Not able to wait for effective government action, the business community in Qatar is taking matters into its own hands. Salaries in Qatar's private sector rose 10.6 percent over the last year, according to a study by a Dubai-based online recruitment firm, Gulf Talent. Several large companies, including many Western energy firms and the semi-private Qatar Foundation, have built their own housing compounds to avoid having their employees suffer in the broader market. Unfortunately, these projects have only increased demand for construction services in the short-term, thereby putting small and medium-sized enterprises (SMEs) and their employees at a disadvantage.

¶9. According to Stephanie Carvell at the American Business Council in Qatar, large U.S. companies have been able to adjust to the price increases by augmenting their salary and benefits packages accordingly. SMEs are having a harder time coping with the rise in prices, and inflation has affected their recruitment. Carvell stated that Qatar is "no longer a market to enter into lightly" and companies will need to put out "serious capital" to start up operations. For example, she's noted that many companies can no longer afford temporary office and living space for employees researching business opportunities, and will now fly staff in for short trips to do market research. Since most established U.S. companies in Qatar are large multi-national corporations, however, the U.S. business community as a whole appears to be able to adjust for now

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without suffering employee attrition. For example, ExxonMobil's solution to high housing rental costs was to build their own compound for employees.

¶10. Amy Nikiel, head of Compensation for the Qatar Foundation's Human Resources Department, noted that the foundation's private compounds (it has built one compound with 640 units and is building two more compounds) enables them to adopt to inflationary pressures without losing expatriate expertise. The foundation is also in the process of raising its entire pay scale to adjust to the cost increases in Qatar.

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Post's Local Employees Feel Burden Acutely  
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¶11. In July 2006, a State/HR Comprehensive Wage Survey revealed that the Embassy lagged far behind in salary and benefits for its employees, compared to the local comparators surveyed. The evidence suggests that other employers in Qatar are responding faster to demands for higher salaries because of their greater flexibility to respond to market forces. Post employs 95 LES from 21 countries, but not a single Qatari. Many LES have lived in Qatar for years, whereas others came more recently, lured by financial opportunities. However, what seemed a

profitable opportunity several years ago has turned into a financial burden with many employees in debt and struggling to make ends meet.

¶12. Local staff report that the cost of housing and the general increase in prices is their number one concern. A survey by Post's Financial Management office revealed that from 2005-2006, LES paid an average of 167 percent of their housing allowance for housing, or two-thirds more than they receive from Post. Likewise, inflation over the same period caused a 15 percent rise in the costs of other expenses beyond salary increases. A separate analysis revealed that from 2001-2007, LES salaries increased between 9-24 percent (depending on grade), with an average increase across all grades of 17 percent. At the same time, however, Qatar's inflation was over 50 percent during the same time period, while rents increased by at least by 116 percent, as noted earlier.

¶13. Some specific examples of hardships being endured by our LES, which are representative of Qatar as a whole include:

-- Notices from landlords of imminent evictions so that the land can be used for commercial development, and requests from landlords for cash advances of up to two-years for rental costs. One senior employee is taking a month of leave to look for a new apartment after being given an eviction notice from the building he has lived in for 24 years. Another employee who received an eviction notice has spent weeks searching for new accommodation and only found apartments that are renting for more than double the amount he receives for his housing allowance. A third longtime employee was recently given an eviction notice by her landlord who wants to build a shopping complex on the site of her apartment building. With a son leaving for college, she considers herself lucky that she can now search for and live in a smaller apartment.

-- Many employee have had to take out bank loans to pay for basic living requirements, such as housing and education for their children.

-- Seven percent of Embassy employees have had to send their families back home and move to shared accommodation because the cost of living is too high.

-- One employee in ten is sharing accommodation with other families, and 12 percent are sharing kitchens.

¶14. American staff have noted with growing concern the burden the housing situation has placed on our LES colleagues. This has also created a host of new management problems, as employee morale is low, anxiety about the future is high, and employee productivity is down, as many local staff need lots of time during work hours to look for new accommodation. Local employees continue to carry out their work professionally but there is palpable anger that the U.S. government and "the system" are not listening to their valid concerns or adequately addressing their very

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real needs. Uncertainty over housing places a large psychological distress on employees and detracts from overall mission cohesion and performance.

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COMMENT: Qatari Labor Market Being Squeezed, Embassy Not Immune  
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¶15. Qatar's booming economy is caught between the need to import foreign workers at every level - from managers to laborers - who provide the human capital for the country's

development, and the disincentives to life here posed by the high cost of living. No one comes to a conservative desert country for the social life, and as inflation in the housing and broader market erodes expatriate quality-of-life, Qatar will find it harder to attract and retain skilled workers in particular.

¶16. More immediately worrying for Post, we are reaching a "tipping point" for retaining our LES, many of whom have served here for years, enjoy their work, and would like to continue employment with the Embassy. With no Qataris on the payroll and only expatriate LES employed throughout the Embassy, however, working in Doha has stopped being financially profitable for most of our LES. The only thing saving Embassy Doha from a mass exodus of LES to other employers is the difficulty of transferring sponsorship under Qatari law and the fear of deportation if a sponsorship transfer request is denied by Qatar labor authorities. As one senior employee put it, "we all would have left a long time ago," were it not for the sponsorship system. Ironically, pressing for modification of the sponsorship system - which locks employees in to one job and causes labor market rigidity and encourages abusive employment practices - is one of Post's main areas of engagement with the GOQ. Even if the sponsorship system does not change, Post believes that absent a significant increase in salaries and/or funds committed for housing allowances, we will begin to see employee attrition.

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